# DIRECT TESTIMONY OF
# THOMAS R. CONARD
# ON BEHALF OF
# CAROLINA GAS TRANSMISSION CORPORATION
# F/K/A SOUTH CAROLINA PIPELINE CORPORATION
# DOCKET NO. 2007-6-G

**Q. PLEASE STATE YOUR NAME AND GIVE YOUR BUSINESS ADDRESS.**

A. My name is Thomas R. Conard, and my business address is 105 New Way Road, Columbia, South Carolina 29224.

**Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS EXPERIENCE BACKGROUND.**

A. I am a graduate of the University of South Carolina receiving a Bachelor of Science degree in Finance in 1971 and a Master of Accountancy degree in 1979. I joined South Carolina Electric & Gas Company ("SCE&G") in June 1980 where I held various positions in Accounting, Information Services Technology, Fossil Hydro Business Unit, and Retail Electric Business Unit. In November 1998, I became Manager of Accounting, Finance and Regulatory at South Carolina Pipeline Corporation ("SCPC" or "Company"), now known as Carolina Gas Transmission Corporation ("CGTC"). In May 2003, I was promoted to the position of Assistant Controller. I am licensed as a Certified Public Accountant in the State of South Carolina, and I am a member of the American Institute of Certified Public Accountants as well as the South Carolina Association of Certified Public Accountants.

**Q. WHAT IS YOUR CURRENT POSITION?**

A. I am currently employed as Assistant Controller at CGTC, formerly known as SCPC. For the period under review, the Company operated under the legal name of SCPC. Thus, in this testimony I will generally refer to SCPC or the Company in discussing SCPC's cost recovery mechanism for the period under review.

**Q. PLEASE SUMMARIZE YOUR DUTIES WITH SCPC.**

A. As Assistant Controller for SCPC during the review period, my corporate responsibilities included oversight of the books and records of SCPC, including all accounting and reporting functions.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to inform the Public Service Commission of South Carolina ("Commission") of the practices of SCPC with regard to gas cost recovery for the ten-month review period of January 1, 2006 through October 31, 2006. This period was the Company's final period in which it offered bundled intrastate services to South Carolina customers. Beginning November 1, 2006, the Company began offering interstate transportation services under authority granted and tariffs approved by the Federal Energy Regulatory Commission ("FERC").

**Q. HOW WERE THE BOOKS AND RECORDS OF THE COMPANY MAINTAINED DURING THE REVIEW PERIOD?**

A. The Company maintained its books and records for regulatory reporting and accounting in conformity with the Uniform System of Accounts as prescribed by FERC and as adopted by the Commission.

**Q. BRIEFLY EXPLAIN THE STEPS THE COMPANY TOOK TO ENSURE THAT ITS BOOKS AND RECORDS WERE ACCURATE AND COMPLETE.**

A. SCPC historically maintained an extensive system of strict internal accounting controls supplemented by formal policies and procedures, including financial oversight by the Audit Committee of SCANA Corporation's ("SCANA") Board of Directors. In addition to SCPC's accounting transactions and reports being audited by SCANA's internal auditors, these transactions and reports were audited by SCANA's external auditors, Deloitte & Touche. Deloitte & Touche also audited SCPC's revenue and cost of gas transactions quarterly.

In addition to internal and external accounting controls and audits, SCPC documented all critical controls for compliance with the Sarbanes-Oxley Act. These controls were reviewed, tested and approved by SCANA personnel as well as Deloitte & Touche.

**Q. WAS SCPC SUBJECT TO ANY FURTHER OVERSIGHT?**

A. Yes. As a regulated utility under the jurisdiction of the Commission, SCPC was subject to reviews by the Commission as well as audits conducted by the South Carolina Office of Regulatory Staff ("ORS"). Further, the Company was subject to audits and reviews by various taxing authorities, such as the Internal Revenue Service and the South Carolina Department of Revenue. Additionally, SCANA filed regular reports with the United States Securities and Exchange

Commission containing information related to SCPC, which reports are subject to audit and review.

**Q. WHAT CLASSES OF CUSTOMERS DID SCPC SERVE DURING THE REVIEW PERIOD?**

A. Overall, SCPC served two major classes of customers: (1) sale for resale and (2) industrial. Both of these customer classes were further divided into firm and interruptible categories, a distinction that I will discuss later in my testimony.

**Q. PLEASE DESCRIBE THE SALE FOR RESALE CUSTOMERS.**

A. SCPC's sale for resale customers consisted of an investor-owned utility, natural gas authorities, and municipalities that operated gas distribution systems serving residential, commercial, and industrial customers. In essence, the sale for resale customers purchased natural gas from SCPC on a firm or interruptible basis and then resold the purchased gas to its residential, commercial, and industrial customers. In addition to categorizing sale for resale customers as either firm or interruptible, SCPC also classified its sale for resale customers according to the type of service that the customer received, such as Distributor Service, Distributor Interruptible Supplemental Service, Resale Firm Transportation Service, and Resale Firm Transportation – Peaking Service.

**Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN A CUSTOMER WHO RECEIVED GAS SERVICE ON A FIRM BASIS AND A CUSTOMER WHO RECEIVED GAS SERVICE ON AN INTERRUPTIBLE BASIS.**

A. Regardless of whether a customer was a sale for resale customer or an industrial customer, SCPC further divided these customers into classes designated as either firm or interruptible. A firm customer was one who received gas on a priority basis and anticipated no interruptions, under normal circumstances. For example, a firm customer typically entered into contracts with SCPC for the delivery of a specified volume of gas on a daily basis. SCPC was obligated to deliver up to the firm quantity of gas that the customer had requested under the terms of the contract. The amount of gas that SCPC was obligated to deliver under the terms of the contract was called the Maximum Daily Quantity ("MDQ").

The firm customer was obligated to pay a monthly fixed charge for the MDQ regardless of whether the customer accepted delivery of the gas. This charge was called a demand charge. In addition to the demand charge, the customer also paid a charge for all volumes of gas actually delivered to the customer during the course of a given month. This charge was called a commodity charge. I will discuss both of these charges in greater detail later in my testimony.

An interruptible customer, on the other hand, was one that received interruptible gas service from SCPC, meaning that SCPC was not contractually or otherwise obligated to deliver specific volumes of gas within a given period of time. Upon short notice, SCPC possessed the right to "interrupt" the interruptible customer's gas service, according to the curtailment plan approved by the Commission. In summary, the curtailment plan authorized SCPC to curtail gas service to its interruptible customers on a priority basis, which was based upon the category of service that the interruptible customer received.

**Q. PLEASE DESCRIBE THE RATES APPROVED BY THE COMMISSION AND CHARGED TO SALE FOR RESALE CUSTOMERS FOR FIRM SERVICE.**

A. SCPC charged for providing firm natural gas service to its sale for resale customers through a two-part demand/commodity rate structure set forth in SCPC's approved gas tariff. By Commission Order No. 90-729, the Commission initially approved the methodology underlying the current rate structure. Thereafter, the Commission approved several modifications to the gas cost recovery formula established by Order No. 90-729.

**Q. PLEASE DESCRIBE THIS TWO-PART DEMAND/COMMODITY RATE STRUCTURE THAT APPLIED TO SCPC'S SALE FOR RESALE CUSTOMERS.**

A. The demand charge was divided into two (2) components: (i) the Demand Charge Cost of Gas and (ii) the Cost of Service Demand Charge. Pursuant to Section 7(a) of SCPC's tariff, the Demand Charge Cost of Gas for each dekatherm ("Dt") of MDQ was determined monthly on a weighted average basis of all such firm quantities that SCPC was obligated to deliver, i.e., the MDQ. The Demand Charge Cost of Gas included all demand and capacity charges that SCPC paid suppliers to obtain guaranteed supplies of gas as well as the upstream demand charges and the upstream cost of service demand charges. The second component of the demand charge was called the Cost of Service Demand Charge, which was designed to recover SCPC's fixed costs, excluding its return on investment and associated income taxes. The Cost of Service Demand Charge was set at $3.5924 per Dt of MDQ for sale for resale customers.

The commodity charge was simply the monthly Weighted Average Cost of Gas ("WACOG") multiplied by the volumes delivered to the customer plus the approved tariff markup of $0.0753, also multiplied by the volumes delivered. I will discuss the WACOG calculation in detail later in my testimony.

**Q. HOW DID SCPC CHARGE FOR NATURAL GAS SERVICES TO ITS INDUSTRIAL CUSTOMERS?**

A. In Commission Order No. 10,391, which was issued in 1957, the Commission authorized the Company to "contract with industrial customers buying directly from the pipeline on terms and conditions mutually satisfactory to the respective parties." Consequently, all industrial customers negotiated contracts with SCPC which established the rates to be charged to the customer. The billing rate for firm industrial customers included a demand and commodity component. The demand component included the Demand Charge Cost of Gas based on the customer's contracted MDQ. The commodity component was the monthly WACOG plus the negotiated contractual markup, multiplied by the volumes of natural gas delivered during the month.

The interruptible industrial customers' billing rate was the monthly WACOG plus the negotiated contractual markup. However, for those industrial customers participating in the Industrial Sales Program-Rider ("ISP-R"), the billing rate was the negotiated competitive sales price which met the customer's alternative fuel price. Included in this negotiated competitive sales price was gas cost plus the negotiated contractual markup, which in the aggregate could not exceed the authorized maximum markup established by Commission Order No. 82-898.

**Q. PLEASE EXPLAIN THE WEIGHTED AVERAGE COST OF GAS.**

A. In my testimony I have made reference to the Weighted Average Cost of Gas, which is commonly referred to as "WACOG." Pursuant to Commission orders and SCPC's tariff, the WACOG was a calculation of the cost of gas which was comprised of (i) 20,000 Dt of the least expensive daily delivered gas volume, (ii) the actual price paid for gas, including the actual transportation costs incurred for the delivery of the gas to South Carolina and charged to firm and interruptible customers, (iii) weighted average cost of storage gas withdrawals, (iv) direct cost and additions to and reductions from the cost of gas associated with hedging activities, (v) demand costs associated with all reserve firm capacity, (vi) credits associated with released firm capacity, and (vii) gas costs associated with the unaccounted for gas volumes and compressor fuel, excluding any demand charges.

**Q. WHAT WAS THE IMPACT OF COMMISSION ORDER NO. 94-181 WHICH REQUIRED THAT 20,000 DT A DAY OF THE LEAST EXPENSIVE DELIVERED GAS BE RESERVED FOR THE WACOG?**

A. The impact of complying with Commission Order No. 94-181 was two-fold. First, Order No. 94-181 reduced the cost of gas for SCPC's sale for resale customers by reducing the WACOG which, in turn, reduced the commodity charge assessed by SCPC to its sale for resale customers.

The second impact of complying with Order No. 94-181 related to how it impacted SCPC's ability to earn its approved margins from ISP-R customers. Specifically, reserving 20,000 Dt per day of the least expensive gas to the WACOG adversely impacted the ability of SCPC and its sale for resale customers to compete successfully with alternative fuels of industrial customers, resulting in lost financial opportunities. During the ten months ending October 31, 2006, SCPC lost $806,501 of approved margin as a direct result of this order. Collectively, since January 1994, SCPC lost margin of $21,323,719 directly related to reserving 20,000 Dt per day of the least expensive gas to the WACOG.

**Q. PLEASE DESCRIBE THE PROCEDURES FOLLOWED BY SCPC FOR ITS GAS COST RECOVERY.**

A. SCPC's gas cost recovery was based on the recovery of delivered gas costs. Delivered gas costs were both the actual purchase price paid for gas and the actual transportation costs incurred for the delivery of the gas to South Carolina. Each month, after certain gas cost assignments were made, actual delivered gas costs were aggregated and divided by the delivered volumes. This calculation produced the WACOG. The WACOG calculation included the following:

- In compliance with the approved gas tariff, storage gas withdrawals were assigned the weighted average cost of stored gas. A weighted average cost of stored gas was calculated for each separate storage facility utilized by SCPC.
- In compliance with Order No. 94-181, 20,000 Dt of the least expensive daily delivered gas volumes were reserved for the monthly WACOG.
- In compliance with Order No. 83-873, delivered gas costs were assigned to competitive gas sales made through the ISP-R.
- In compliance with Order No. 95-1253, direct costs and additions to and reductions from the cost of gas associated with hedging activities were included in the monthly WACOG.
- In compliance with Order No. 96-336, the demand costs associated with all reserve firm capacity were included in the monthly WACOG.
- In compliance with Order No. 97-477, credits associated with released firm capacity were included in the monthly WACOG.
- In compliance with Order No. 97-477, gas costs associated with the unaccounted for gas volumes and compressor fuel, excluding any demand charges, were recovered through the WACOG.

**Q. HOW WERE COSTS ASSIGNED TO THE INDUSTRIAL SALES PROGRAM RIDER?**

A. As Mr. Dozier explained in his testimony, the ISP-R was essential to maintaining the industrial service that was so important to SCPC's system and all of its customers. As provided in Order No. 90-729, SCPC and certain of its sale for resale customers were permitted to compete with alternative competitive fuels of industrial customers. Order No. 98-298 clarified that gas-to-gas competition was authorized under the ISP-R program. On a monthly basis, gas costs assigned to competitive sales were determined by reviewing each competitive sales price less the negotiated markup in the service agreement. SCPC's gas cost requirements and those of its sale for resale customers were then aggregated. Gas purchases were reviewed and assigned to meet as nearly as possible these gas cost requirements. In the event that aggregate net revenues received from ISP-R sales exceeded aggregate net revenues authorized by the Commission, an ISP-R sales credit was created. This credit was used to lower the Demand Charge Cost of Gas. Thus, in no case did SCPC realize more margin than the contractual markup.

**Q. WHAT REQUEST DOES THE COMPANY MAKE OF THE COMMISSION IN THIS PROCEEDING REGARDING SCPC'S RECOVERY OF ITS GAS COSTS?**

A. SCPC's recovery of its gas costs during this final review period of ten (10) months was carefully made in compliance with Commission orders and the approved gas tariff in effect during the review period. In fact, SCPC's monthly cost of gas calculation resulted in the precise recovery of actual gas costs incurred by the Company. I therefore respectfully request, on behalf of SCPC, that the Commission find that the Company's gas cost recovery was in full compliance with SCPC's tariff and Commission Orders for the period ending October 31, 2006.

**Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

A. Yes. CGTC has received, and is currently holding subject to the Commission's instructions, refunds amounting to $41,626.11. These refunds relate solely to SCPC's intrastate operations prior to its merger with SCG Pipeline, Inc. ("SCG") and transfer to FERC jurisdiction on November 1, 2006. Further, the refunds are to be distributed only to customers of SCPC's intrastate operations. The refunds are unrelated to SCG's customers or operations and also are unrelated to CGTC's customers or operations following the merger and transfer to FERC jurisdiction.

In an effort to expeditiously distribute any refunds (either those currently held or any future refunds related to its past provision of intrastate services) and accrued interest, if any, to customers, CGTC requests Commission approval of the following refund mechanism:

- Within thirty (30) days after receiving any refund as described above, CGTC will notify ORS and the Commission of the amount and source of the refund.

- For all refunds less than $100,000, the refund will be distributed over the cost of gas dollars during the 12 month period of November 2005 through October 2006.

- In the unlikely event CGTC receives refunds greater than $100,000, the refund will be distributed over the cost of gas dollars during the applicable refund period.

- A refund from either Southern Natural Gas Company or Transcontinental Gas Pipe Line Corporation will be based on percentages of an analysis of throughput of purchased gas dollars based on the following delivery categories:
  - Form 1 (WACOG) (also includes all sale for resale ISP-R and LNG)
  - ISP-R (SCPC industrials)
  - Underground storage/inventory

- Any refund due to the category of underground storage/inventory will be distributed pro rata to those sale for resale customers who received that inventory as of October 31, 2006.

- If a calculation of a refund check to any customer is less than $50, then that amount will be distributed/refunded pro rata to the remaining customers in that category. Thus, no check less than $50 will be generated or distributed.

- If a customer is inactive or has left the system, then the amount of the refund calculated for that customer will be distributed/refunded pro rata to the remaining customers in that category.

- Any checks returned or not cashed within six (6) months after issuance and mailing will be considered unclaimed property and escheated to the South Carolina Treasurer pursuant to the South Carolina Uniform Unclaimed Property Act, S.C. Code Ann. Section 27-18-10, et seq.

Additionally, CGTC has filed a claim in a pending class action lawsuit, generally entitled Natural Gas Commodity Litigation. The class action lawsuit alleges market manipulation by the defendants named in the lawsuit during the period of July 1999 through December 2002 ("Claims Period"). If any funds are received on this claim, CGTC proposes to distribute these funds to those customers who received price risk adjustments ("PRA") on their bills issued by SCPC resulting from the hedging program during the Claims Period ("Qualifying Customers"), net of any external litigation costs but including any accrued interest, if any, using the following claim funds distribution mechanism:

- Within thirty (30) days after receiving any claim funds due to Qualifying Customers, CGTC will notify ORS and the Commission of the amount and source of the refund.

- The amount of any funds to be paid to any Qualifying Customer will be derived by calculating the total PRA[1] assigned to such customer during the Claims Period as a percentage of the total PRA assigned to Qualifying Customers receiving price risk adjustments during the Claims Period. The formula is as follows:

$$\frac{\text{Total PRA Assigned to the Qualifying Customer}}{\text{Total PRA Assigned to All Qualifying Customers}} \times \text{Amount of Funds Received on Class Action Claim} = \text{The Amount of Claim Funds to be Distributed to the Qualifying Customer}$$

- If a distribution to any Qualifying Customer is less than $50, then that amount will be distributed to the remaining Qualifying

[1] The total PRA will be calculated by adding both additions to and subtractions from the cost of gas for the Claims Period.

Customers. Thus, no check less than $50 will be generated or distributed.

- If a Qualifying Customer is inactive or has left the system, then the amount of the claim funds distribution calculated for that customer will be distributed to the remaining Qualifying Customers.

- Any checks returned or not cashed within six (6) months after issuance and mailing will be considered unclaimed property and escheated to the South Carolina Treasurer pursuant to the South Carolina Uniform Unclaimed Property Act, S.C. Code Ann. Section 27-18-10, et seq.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes.